

CITY OF CORNING, IOWA

Independent Auditors' Reports
Basic Financial Statements and
Supplemental Information
and Findings

June 30, 2008

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City of Corning, Iowa
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Guy Brace	Mayor	January, 2010
Frank Dennis	Council Member	January, 2010
Bert Peckham	Council Member	January, 2012
Judith Butcher	Council Member	January, 2012
Brian Kannas	Council Member	January, 2012
Cindy Peterson	Council Member	January, 2010
Iona Allen	City Clerk	January, 2010
Ann or Stuart Nielsen	City Attorney	January, 2010

POLLARD AND COMPANY P.C.

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PRIVATE COMPANIES PRACTICE SECTION

IOWA SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Corning

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Corning, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Corning as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also included our reports on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Corning's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

March 23, 2009

Pollard and Company P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Corning provides this discussion and analysis of the City's financial performance. This provides a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities were \$1,212,237 with Property Tax of \$426,948.
- The City's total disbursements were \$987,463
- The City's total cash basis net assets beginning of year were \$1,019,277 and end of year were \$1,276,349 for an increase of \$257,072.

Report Components

The report consists of a series of financial statements and other information as follows:

1. Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
2. The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.
3. Fund Financial Statements focus on the individual funds of the City government. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant (major) funds. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. For proprietary activities, these statements offer short-term and long-term financial information about the activities the City operates like businesses, such as the sewer and sanitation services.
4. Notes to the Financial Statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the basic statements.
5. Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.
6. Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. This cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with US generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of cash basis of accounting.

Reporting the City's Financial Activities

Government-wide Financial Statement

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that helps answer this question. This annual report includes all activities for which the Corning City Council is fiscally responsible.

The Statement of Activities and Net Assets present the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, state, and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system and the sanitation system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) The General Fund, 2) the Special Revenue Funds, such as Employee Benefits Fund, Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Funds, and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information

helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the sewer and sanitation funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago by \$224,774. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
Year Ended June 30, 2008

Receipts and Transfers

Program Receipts:

Charge for Service \$ 20,775

Operating Grants, Contributions &
Restricted Interest \$265,835

Capital Grants, Contributions &
Restricted Interest \$325,126

General Receipts

Property Tax \$438,948

Grants and Contributions Not
Restricted to Specific Purposes

Unrestricted Investment Earnings \$ 16,817

Local Option Sales Tax \$110,833

Other General Receipts \$ 33,903

Transfers, net

Total Receipts and
Transfers _____ \$1,212,237 _____

Disbursements:

Public Safety \$ 287,867

Public Works \$ 207,470

Culture and Recreation \$ 157,612

Community & Economic Development \$ 16,723

General Government \$ 101,415

Debt Service \$ 99,289

Capital Projects \$ 117,087

Total Disbursements _____ \$ 987,463 _____

Increase in Cash Basis Net Assets \$ 224,774

Cash Basis Net Assets Beginning of Year \$ 464,893

Cash Basis Net Assets End of Year \$ 689,667

Changes in Cash Basis Net Assets of Business Type Activities
Year Ended June 30, 2008

Receipts:

Program Receipts:

Use of Money & Property	\$ 12,477
<u>Charges for Service</u>	<u>\$632,321</u>
Total Receipts	\$644,798

Disbursements & Transfers:

Sewer	\$273,577
<u>Garbage</u>	<u>\$135,403</u>
Total Disbursements	\$408,980

Increase (Decrease) in Cash Balance \$235,818

Non-operating Receipts (Disbursements)

<u>Debt Service</u>	<u>(\$203,520)</u>
Total Non-Operating Receipts (Disbursements)	(\$203,520)

Net Change in Balance \$ 32,298

Cash Basis Net Assets Beginning of Year \$554,384

Cash Basis Net Assets End of Year \$586,682

Cash Basis Fund Balances

Reserved for Debt Service	\$ 61,471
<u>Unreserved</u>	<u>\$525,211</u>
Total Cash Basis Fund Balances	\$586,682

Total Business type activities receipts for fiscal year were \$644,798 and total disbursements were \$408,980.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Corning completed the year, its governmental funds reported a combined fund balance of \$689,667 and increase of \$224,774 from 2007.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Sewer Fund cash balance increased due primarily to an increase in the sewer rates needed to repay the State Revolving Loan.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. It was approved on May 27, 2008 to allow for Capital project which include Adams Community Aquatic Center, Loomis Avenue Railroad Bridge Replacement, 28E Agreement County Wide Law Enforcement and increase in fuel and utilities.

DEBT ADMINISTRATION

The City's long-term debt is comprised of General Obligation debt for a street paving project. Additionally, the City of Corning is indebted to the State of Iowa through the State Revolving Loan Fund for the wastewater treatment plant improvements. The remaining amount of debt for Tax Increment Projects is \$18,187. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits.

Outstanding Debt at Year-End

General Obligation Bonds (Street)	\$ 225,000
State Revolving Loan (Wastewater)	\$2,561,000

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Corning's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's employment has not grown. The following information was gathered from Iowa Workforce Development for fiscal year July 1, 2007 through June 30, 2008: Total employment for the State of Iowa decreased by 87,800 employees. State unemployment rate was 5.2% and Adams County rate was 5.7%.

These indicators were taken into account when adopting the budget for fiscal year 2009. The City will see a small increase in General Fund Property Tax dollars through the increased valuation of property. Those dollars will assist to offset the increased expenses for salaries and infrastructure. The Aquatic Center is the major capital asset items budgeted in governmental activities for next year.

Garbage collection and disposal rates were increased as follows: Ordinance #384 passed and approved April 14, 2008 for 35 gallon increased by \$1.30 and 96 gallon increased to 16.92. Ordinance #385 passed and approved May 27th, 2008 for 35 gallon increased by \$1.04 and 96 gallon increased by \$1.32. These increases were put into effect to cover the increase in landfill

tipping fees and increased fuel charges.

The Corning City Council did not need to increase sewer rates to meet loan obligations to the State Revolving Loan Fund.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at 601 6th Street, Corning, Iowa or telephone at 641-322-4230.

Guy Brace
Mayor

City of Corning, Iowa
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2008

Functions/Programs	Program Receipts			
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 287,867	\$	\$ 41,956	\$
Public works	207,470	9,358	152,754	
Culture and recreation	157,612	9,247	43,764	
Community and economic development	16,723			
General government	101,415	2,170		
Debt service	99,289			-
Capital Projects	117,087		27,361	325,126
Total governmental activities	987,463	20,775	265,835	325,126
Business Type Activities				
Sewer	477,097	519,399		
Sanitation	135,403	125,399		
Total business type activities	612,500	644,798		
Total	\$ 1,599,963	\$ 665,573	\$ 265,835	\$ 325,126

General Receipts

Property tax levied for
General purposes
Tax increment financing
Debt service
Local option sales tax
Unrestricted interest on investments
Miscellaneous
Total general receipts
Change in cash basis net assets
Cash basis net assets beginning of year
Cash basis net assets end of year

Cash basis net assets

Restricted (Deficit)
Streets
Debt service
Other purposes
Unrestricted (deficit)
Total cash basis net assets

There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Governmental Activities		Business Type Activities	Total
\$	(245,911)	\$	(245,911)
	(45,358)		(45,358)
	(104,601)		(104,601)
	(16,723)		(16,723)
	(99,245)		(99,245)
	(99,289)		(99,289)
	235,400		235,400
	(375,727)		(375,727)
		42,302	42,302
		(10,004)	(10,004)
		32,298	32,298
\$	(375,727)	\$ 32,298	\$ (343,429)
	343,650		343,650
	12,000		12,000
	83,298		83,298
	110,833		110,833
	16,817		16,817
	33,903		33,903
	600,501		600,501
	224,774	32,298	257,072
	464,893	554,384	1,019,277
\$	689,667	\$ 586,682	\$ 1,276,349
\$	240,250	\$	\$ 240,250
	47,535	61,471	109,006
	416,292		416,292
	(14,410)	525,211	510,801
\$	689,667	\$ 586,682	\$ 1,276,349

City of Corning, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ending June 30, 2008

	Special Revenue			
	General	Road Use Tax	Local Option SalesTax	Employee Benefits
Receipts				
Property Taxes	\$ 231,410	\$ -		\$ 112,240
Tax Increment Financing Collections				
Other City Tax			110,833	
Licenses and Permits	5,966	-		
Use of Money and Property	16,817	-		
Intergovernmental	41,956	152,754		
Charges for Services	20,775	-		
Miscellaneous	29,349	25,949		
Total Receipts	346,273	178,703	110,833	112,240
Disbursements				
Operating				
Public Safety	248,535	-		39,332
Public Works	23,705	147,566		36,199
Culture and Recreation	42,231	-		14,349
Community and Economic Development	16,723	-		-
General Government	81,842	-		19,173
Debt Service	-	-	-	-
Capital Projects	-	-	-	-
Total Disbursements	413,036	147,566	-	109,053
Excess (deficiency) of receipts over (under) disbursements	(66,763)	31,137	110,833	3,187
Other financing sources (uses)				
Operating transfers in	30,421			
Operating transfers out	(37,925)		(110,833)	
Total other financing sources (uses)	(7,504)	-	(110,833)	-
Net change in cash balances	(74,267)	31,137	-	3,187
Cash balance (deficit) - beginning of year	59,857	209,113	-	(3,337)
Cash balance (deficit) - end of year	\$ (14,410)	\$ 240,250	\$ -	\$ (150)
Cash basis fund balances (deficit)				
Unreserved				
Debt service	\$ -	\$ -	\$ -	\$ -
Capital projects				
General fund	(14,410)	-	-	-
Special revenue funds	-	240,250		(150)
Permanent fund	-	-	-	-
Total cash basis fund balances (deficit)	\$ (14,410)	\$ 240,250	\$ -	\$ (150)

See notes to financial statements.

Capital Project				
Debt Service	Library	Aquatic Center	Other Nonmajor Governmental Funds	Total
\$ 83,298			\$ -	\$ 426,948
			12,000	12,000
			-	110,833
			-	5,966
	1,903	2,223	-	20,943
	14,500	78,000	4,000	291,210
			-	20,775
	27,361	181,715	59,188	323,562
83,298	43,764	261,938	75,188	1,212,237
			-	287,867
			-	207,470
	101,032		-	157,612
			-	16,723
400			-	101,415
84,837	-	-	14,452	99,289
-	-	107,485	9,602	117,087
85,237	101,032	107,485	24,054	987,463
(1,939)	(57,268)	154,453	51,134	224,774
	44,260	74,077		148,758
				(148,758)
-	44,260	74,077	-	-
(1,939)	(13,008)	228,530	51,134	224,774
49,474	95,660	15,057	39,069	464,893
\$ 47,535	\$ 82,652	\$ 243,587	\$ 90,203	\$ 689,667
\$ 47,535	\$	\$	\$ -	\$ 47,535
			\$ 53,398	\$ 53,398
-	82,652		13,671	81,913
-		243,587	-	483,687
-			23,134	23,134
\$ 47,535	\$82,652	\$ 243,587	\$ 90,203	\$ 689,667

City of Corning, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2008

	Sewer	Sanitation	Total
Operating receipts			
Use of money and property	\$ 12,477	\$ -	\$ 12,477
Charges for service	506,922	125,399	632,321
Total operating receipts	519,399	125,399	644,798
Operating disbursements			
Business type activities	273,577	135,403	408,980
Excess of operating receipts over operating disbursements	245,822	(10,004)	235,818
Non-operating receipts (disbursements)			
Debt service	(203,520)	-	(203,520)
Total non-operating receipts (disbursements)	(203,520)	-	(203,520)
Net change in cash balances	42,302	(10,004)	32,298
Cash balances - beginning of year	546,050	8,334	554,384
Cash balances - end of year	\$ 588,352	\$ (1,670)	\$ 586,682
Cash basis fund balances			
Reserved for debt service	\$ 61,471	\$ -	\$ 61,471
Unreserved	526,881	(1,670)	525,211
Total cash basis fund balances	\$ 588,352	\$ (1,670)	\$ 586,682

See notes to financial statements.

CITY OF CORNING, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1/ Summary of Significant Accounting Policies

The City of Corning is a political subdivision of the State of Iowa located in Adams County. It was first incorporated in 1857 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, public improvements, and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units that meet the criteria other than the following excluded component unit.

The Corning Municipal Utilities, which provides water, electric and gas services, was established under Chapter 388 of the Code of Iowa, and is legally separate from the City, but has the potential to provide specific benefits to, or impose specific burdens on the City. The Municipal Utilities is governed by a three-member board appointed by the Mayor and approved by the City Council. The Municipal Utilities has been audited separately on a December 31, 2007 year end. Complete financial statements can be obtained from the Municipal Utilities administrative office.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Adams County Assessor's Conference Board.

In May, 2008, the City and Adams County entered into a 28E agreement for the county to provide law enforcement for the City for one year ending April 30, 2009 for a payment of \$222,000.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax is used to account for the City's sales tax receipts and the disbursements financed by such.

The Capital Project Fund is utilized to account for all resources used in the acquisition of capital facilities.

The Employee Benefits Fund is used to account for the tax levy and the disbursement for the benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Library Fund accounts for the operation of the City's library.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Sanitation Fund accounts for the operation of the City's solid waste disposal.

C. Measurement Focus and Basis of Accounting

The City of Corning maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not

give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the Public Works, Culture and Recreation, Debt Service and Capital Project functions.

2/ Cash and Pooled Investments

The City's deposits at June 30, 2008 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but maturities shall be consistent with the needs and use of the City.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$660,195 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Credit Risk- the City's investment in the Iowa Public Agency Investment Trust is unrated.

3/ Urban Renewal Tax Increment Revenue Bond

In June, 1993, the City issued a \$180,000 urban renewal tax increment revenue bond, pursuant to Chapter 403.19 of the Code of Iowa, to fund an economic development grant to a local corporation. The bond requires principal installments each year continuing through June, 2010. No interest is required and the principal is payable from the Special Revenue, Urban Renewal Tax Increment Fund collections. The annual debt service requirements are \$12,000 and \$6,187 in the years ending June 30, 2009 and 2010, respectively.

4/ Notes Payable

The annual debt service requirement to maturity for general obligation and the sewer revenue bonds is as follows:

Year Ending June 30,	General Obligation Bonds		Sewer Revenue Bonds		Total Annual Debt Retirement	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 70,000	\$ 11,407	\$ 127,000	76,830	\$ 197,000	\$ 88,237
2010	75,000	7,908	131,000	73,020	206,000	80,928
2011	80,000	4,120	135,000	69,090	215,000	73,210
2012			139,000	65,040	139,000	65,040
2013			143,000	60,870	143,000	60,870
2014			147,000	56,580	147,000	56,580
2015			152,000	52,170	152,000	52,170
2016			156,000	47,610	156,000	47,610
2017			161,000	42,930	161,000	42,930
2018			166,000	38,100	166,000	38,100
2019			171,000	33,120	171,000	33,120
2020			176,000	27,990	176,000	27,990
2021			181,000	22,710	181,000	22,710
2022			186,000	17,280	186,000	17,280
2023			192,000	11,700	192,000	11,700
2024			198,000	5,940	198,000	5,940
Totals	\$ 225,000	\$ 23,435	\$ 2,561,000	\$ 700,980	\$ 2,786,000	\$ 724,415

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$3,075,000 in sewer revenue bonds issued in June, 2003. Proceeds from the bonds provided financing for the sewer treatment plant construction and improvement. The bonds are payable solely from sewer customer net receipts and are payable through 2024. Annual principal and interest payments on the bonds are expected to require less than 83 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$3,261,980. For the current year, principal and interest paid and customer net receipts were \$245,822 and \$203,520, respectively.

The resolutions providing for the issuance of the sewer revenue notes include the following provisions.

- The bonds will only be redeemed from the future earnings of the sewer activity and the bond holders hold a lien on the future earnings of such.
- Sufficient monthly transfers shall be made to a separate revenue bond sinking account for the purpose of making the next bond principal and interest payments.
- User rates shall be established and charged to customers of the activity at least sufficient to pay the expenses of operating and maintenance and to have a balance of net revenues equal to at least 110% of the principal and interest on the bonds falling due in the same year.

The City has established the sinking fund required by the above resolution.

5/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer From	Transfer To			Total
	<u>General</u>	<u>Library</u>	<u>Aquatic Center</u>	
Local Option Sales Tax	\$30,421	\$6,335	\$74,077	\$110,833
General	<u>37,925</u>	<u>37,925</u>	<u>37,925</u>	<u>37,925</u>
	\$30,421	\$44,260	\$74,077	\$148,758

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

6/ Pension and Retirement Benefits

IPERS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2008, was \$18,415, equal to the required contributions for the year.

7/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The liability is computed based on the rate of pay as of June 30, 2008. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2008, primarily relating to the General Fund, was \$43,000.

8/ Related Party Transactions

The City had business transactions between the City and City officials totaling \$1,911 during the year ended June 30, 2008.

9/ Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

11/ Deficit Fund Balances

At June 30, 2008 the General, Employee Benefit and Sanitation Funds had deficit balances of \$14,410, \$150 and \$1,670, respectively. The deficit in the General Fund will be reduced by transfers from the Local Option Sales Tax Fund. The deficit in the Employee Benefit Fund will be reduced by increasing property tax levies in subsequent years. Garbage rates were increased in May 2008 and should eliminate the deficit.

12/ Construction Commitments

A/ The City has committed to construction contracts for the Aquatic Center totaling \$2,200,000. By June 30, 2008, \$107,485 has been paid. The balance will be paid as construction progresses as follows. The City and Adams County entered into a 28 E agreement to use county local option sales tax bonds to finance \$1,025,000 of the project. Pursuant to Chapter 423B of the Code of Iowa, the City pledged a portion of its local option sales tax, for principal and interest payments of \$25,220 annually payable over 15 years, totaling \$378,000. The balance will be financed by a USDA loan, grants and private contributions. Since some private contributions are pledged to be paid over five years, a temporary loan may be necessary.

B/ In addition, the City has commitments to complete the Loomis Street Bridge engineering services and the Community Center of \$15,518 and \$6,395, respectively.

13/ Litigation

The City is involved in negotiating and reaching a settlement in a workers compensation claim which the City's insurance carrier is handling. Any compensation will be limited by statute and the insurance contract.

City of Corning, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual
Receipts		
Property Taxes	\$ 426,948	
Tax increment financing collections	12,000	
Other city tax	110,833	
Licenses and permits	5,966	
Use of money and property	20,943	12,477
Intergovernmental	291,210	
Charges for Service	20,775	632,321
Miscellaneous	323,562	
Total Receipts	<u>1,212,237</u>	<u>644,798</u>
Disbursements		
Public safety	287,867	
Public works	207,470	
Health and social services		
Culture and recreation	157,612	
Community and economic development	16,723	
General government	101,415	
Debt service	99,289	203,520
Capital Projects	117,087	
Business type activities		408,980
Total Disbursements	<u>987,463</u>	<u>612,500</u>
Excess (deficiency) of receipts over (under) disbursements	<u>224,774</u>	<u>32,298</u>
Other financing (uses) net		
Excess (deficiency) of receipts over disbursements and other financing uses	<u>224,774</u>	<u>32,298</u>
Balance (deficit) - beginning of year	464,893	554,384
Balance (deficit) - end of year	<u>\$ 689,667</u>	<u>\$ 586,682</u>

See accompanying independent auditors' report.

Budgeted Amounts

Net	Original	Final	Less-Excluded Component	Net City Budget	Final to Net Variance
\$ 426,948	\$ 433,226	\$ 433,226		\$ 433,226	\$ (6,278)
12,000	12,000	12,000		12,000	-
110,833	97,960	119,000		119,000	(8,167)
5,966	4,250	5,205		5,205	761
33,420	30,875	51,166		51,166	(17,746)
291,210	45,900	197,563		197,563	93,647
653,096	3,946,885	3,946,885	3,275,000	671,885	(18,789)
323,562	-	332,486		332,486	(8,924)
1,857,035	4,571,096	5,097,531	3,275,000	1,822,531	34,504
287,867	261,487	288,484		288,484	617
207,470	181,063	192,419		192,419	(15,051)
-	-	-			-
157,612	101,583	157,218		157,218	(394)
16,723	13,500	32,953		32,953	16,230
101,415	100,607	125,367		125,367	23,952
302,809	84,838	84,838		84,838	(217,971)
117,087				-	(117,087)
408,980	3,940,141	3,940,141	3,275,000	665,141	256,161
1,599,963	4,683,219	4,821,420	3,275,000	1,546,420	(53,543)
257,072	(112,123)	276,111		276,111	(19,039)
-	-	-	-		-
257,072	(112,123)	276,111		276,111	(19,039)
1,019,277	857,015	1,001,278	-	1,001,278	17,999
\$ 1,276,349	\$ 744,892	\$ 1,277,389	-	\$ 1,277,389	\$ (1,040)

City of Corning, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2008

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 292,243. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the Public Works, Culture and Recreation, Debt Service and Capital Projects functions.

The City is required to publish the budget including Corning Municipal Utilities. Since the component unit was excluded from the government financial statements the final budget was adjusted for comparison purposes.

City of Corning, Iowa
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2008

	<u>Special Revenue</u>		<u>Capital Projects</u>	
	Urban Renewal	Police	Loomis	Community
	Tax Increment	Contingency	Bridge	Center
Receipts				
Tax increment financing collections	\$ 12,000	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	4,000
Miscellaneous	-	-	49,000	10,000
Total Receipts	12,000	-	49,000	14,000
Operating				
Capital Projects	-	-	7,116	2,486
Total Disbursements	-	-	7,116	2,486
Excess of receipts over disbursements	12,000	-	41,884	11,514
Other financing (uses)				
Debt Service	(14,452)			
Total other financing (uses)	(14,452)	-	-	-
Net change in cash balances	(2,452)	-	41,884	11,514
Cash balance - beginning of year	2,452	13,671	-	
Cash balance - end of year	\$ -	\$ 13,671	\$ 41,884	\$ 11,514
Cash basis fund balances				
Unreserved				
Capital projects		\$	\$41,884	\$11,514
General fund		13,671		
Permanent fund	\$ -			
Total cash basis fund balances	\$ -	\$ 13,671	\$41,884	\$11,514

<u>Permanent Cemetery</u>			
Perpetual Care		Total	
\$	-	\$	12,000
	-		4,000
	188		59,188
	188		75,188

	-		9,602
--	---	--	-------

	-		9,602
--	---	--	-------

188	65,586
-----	--------

	-		(14,452)
--	---	--	----------

	-		(14,452)
--	---	--	----------

188	51,134
-----	--------

	22,946		39,069
--	--------	--	--------

\$	23,134	\$	90,203
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\$53,398

13,671

\$	23,134	\$	23,134
----	--------	----	--------

\$	23,134	\$	90,203
----	--------	----	--------

City of Corning, Iowa
Schedule of Indebtedness
For the year ended June 30, 2008

			Amount Originally Issued
Obligation	Date of Issue	Interest Rates	
General Obligation Bonds			
Street Improvements	March 1, 2001	4.50% - 5.15%	\$ 640,000
Urban Renewal Tax Increment Financing			
TIF Revenue Bonds	October 15, 1993	0.00%	180,000
Revenue Bonds			
Sewer Revenue Bonds	June 6, 2003	3.00%	3,075,000

The accompanying notes to financial statements are an integral part of this statement.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 295,000	\$ -	\$ 70,000	\$ 225,000	\$ 14,838	\$ -
\$ 32,639	\$ -	\$ 14,452	\$ 18,187	\$ -	\$ -
\$ 2,684,000	\$ -	\$ 123,000	\$ 2,561,000	\$ 80,520	\$ -

City of Corning, Iowa
Bond Maturities
For the year ended June 30, 2008

General Obligation Bonds - Street Improvements Issued March 1, 2001			Tax Increment Financing - TIF Revenue Bonds Issued October 15, 1993		
Year Ending June 30,	Interest Rates (%)	Amount	Year Ending June 30,	Interest Rates (%)	Amount
2009	5.00	\$ 70,000	2009	0.00	\$ 12,000
2010	5.05	75,000	2010	0.00	6,187
2011	5.15	80,000	Totals		<u>\$ 18,187</u>
Totals		<u>\$ 225,000</u>			

Sewer Revenue Bonds Issued June 6, 2003		
Year Ending	Interest	Amount
2009	3.00	\$ 127,000
2010	3.00	131,000
2011	3.00	135,000
2012	3.00	139,000
2013	3.00	143,000
2014	3.00	147,000
2015	3.00	152,000
2016	3.00	156,000
2017	3.00	161,000
2018	3.00	166,000
2019	3.00	171,000
2020	3.00	176,000
2021	3.00	181,000
2022	3.00	186,000
2023	3.00	192,000
2024	3.00	198,000
		<u>\$ 2,561,000</u>

See accompanying independent auditors' report.

POLLARD AND COMPANY P.C.

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PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Corning, Iowa as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon as dated below. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Corning's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we considered to be a significant deficiency and we considered to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Corning's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Corning's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a matter of public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Corning and other parties to whom the City of Corning may report. This report is not intended to be and should not be used by anyone other than these specified parties.

March 23, 2009

Pollard and Company P.C.

CITY OF CORNING, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally one person has control over each of the following areas:

- (1) Cash receipts, journalizing and posting.
- (2) Disbursements, check writing, signing, mailing journalizing and posting.
- (3) Payroll preparation and distribution.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. The City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response

We will continue to review the internal control procedures and segregate duties to the extent possible with the hiring of new personnel in June 2008.

Conclusion

Response accepted.

Part II: Other Findings Related to Statutory Reporting

II-A-08 Certified Budget

Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the Public Works, Culture and Recreation, Capital Project, and Debt Service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation

The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget and to correct the beginning balances.

Response

The budget will be amended in the future, as applicable.

Conclusion

Response accepted.

II-B-08 Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-08 Travel Expense
We noted no disbursements of City money for travel expenses of spouses of City officials or employees during the year.

II-D-08 Business Transactions
Business transactions between the City and City officials or employees are as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Frank Dennis, Council Member, Owner of Frank's Body Shop	Pickup Repairs	\$1,498
Kevin Olson, Employee Owner of GO Construction	Equipment Rental	383
Iona Allen, City Clerk	Flowers	30

In accordance with Chapter 362.5(10) of the Code of Iowa, these transactions do not appear to be a conflict of interest, since the total transactions with each individual were less than \$2,500 during the fiscal year.

II-E-08 Bond Coverage
Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-08 Council Minutes
No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-08 Deposits and Investments
We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

II-H-08 Revenue Bonds
We noted no instances of non compliance with the revenue bonds.

II-I-08 Financial Condition
The General, Employee Benefit, and Sanitation Funds had deficit balances at June 30, 2008 of \$14,410, \$150 and \$1,670, respectively.

Recommendation
The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response
Note 11 of the financial statements indicates the City's plans to eliminate the deficits.

Conclusion
Response accepted.